LF Ruffer Total Return Fund

Positive absolute returns with low volatility

O class February 2019 **Issue 194**

During February, the fund price fell by 1.8%. This compared with a rise of 2.3% in the FTSE All-Share Index and a decline of 0.9% in the FTSE Govt All Stocks Index (all figures total returns in sterling).

We are currently positioned to try to capture some of the bounce in markets, but we have not compromised on protection in order to achieve this. In January this was reasonably effective (+3%) but in February protective assets have been a drag on performance. This month we thought it would be helpful to share our answers to questions that have been raised recently by investors.

Given your cautious outlook, why do you hold high-beta cyclical businesses? We currently have a low weighting to equities (39%). Their role is to make us money if we are wrong (or early) in having a cautious outlook and they need to punch hard to offset the cost of protective assets. A sustained rally in markets (not our core thesis) will be driven by supportive monetary policy or a stronger-for-longer economy – an environment where cyclical businesses will benefit most. This scenario is also likely to see an initial period of rising real interest rates, which would hurt index-linked bonds.

You have been concerned about credit markets – how will you benefit from that insight and why does it matter if I don't hold corporate bonds? We have exposure to credit default swaps, which will rise in value as credit spreads widen (ie investors price greater risk into corporate bonds). The root of our concern lies in the rising tide of low interest rates and abundant liquidity over the last decade. This has led to a bonanza in corporate debt issuance as savers reached for yield. This tide is now receding. Many corporate bonds are illiquid and are held in vehicles promising daily or weekly liquidity; not a problem when flows are positive but deeply problematic when they reverse. A blow-up in corporate credit has wider implications – rising corporate borrowing costs will affect equity prices and the illiquidity of corporate bonds means that investors will turn to more liquid markets (equities) to de-risk if they cannot sell corporate bonds.

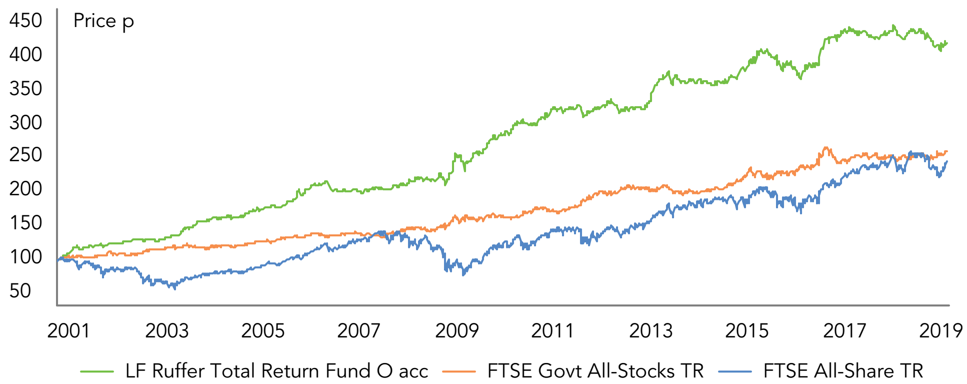
Why have you reduced exposure to Japanese equities? We reduced overall equity exposure last year and felt that this should include Japan. The sales were focused on financial stocks as the biting point for global rates appears now to be lower than previously anticipated. However, the domestic story around Abenomics remains compelling. Corporate governance reforms and ROE targets are working. The most tangible impact has been rising dividends and share buybacks seen across our holdings. We expect this to continue as Japanese companies still hold too much cash on their balance sheets.

How has gold exposure changed in the last year? We increased exposure to bullion in July and then in September partially switched into gold miners. Both of these changes had a positive impact as the initial rise in the gold price was followed by a period of M&A in the sector.

Investment objective

The fund aims to achieve low volatility, positive returns from an actively managed portfolio of different asset classes, including equities, bonds and currencies. Capital invested is at risk and there is no guarantee that a positive return will be delivered over any one or a number of twelve-month periods. The fund may also invest in collective investment schemes, cash, money market instruments, other transferable securities and derivatives and forward transactions. Pervading this objective is a fundamental philosophy of capital preservation.

Performance since fund launch on 29 September 2000



Performance %	February 2019	Year to date	1 year	3 years	5 years	10 years
O accumulation shares	-1.8	1.4	-3.8	10.3	14.1	75.2

Percentage growth (O acc)	%
31 Dec 2017 – 31 Dec 2018	-6.8
31 Dec 2016 – 31 Dec 2017	0.6
31 Dec 2015 – 31 Dec 2016	13.7
31 Dec 2014 – 31 Dec 2015	-0.6
31 Dec 2013 – 31 Dec 2014	5.7

Share price as at 28 February 2019	**p**
O accumulation	**415.64**
O income	**275.65**

Source: Ruffer LLP, FTSE International (FTSE) †

Ruffer performance is shown after deduction of all fees and management charges, and on the basis of income being reinvested. Past performance is not a guide to future performance. The value of the shares and the income from them can go down as well as up and you may not get back the full amount originally invested. The value of overseas investments will be influenced by the rate of exchange.

LF Ruffer Total Return Fund as at 28 Feb 2019

Fund size £3,574.5m

Asset allocation

Currency allocation

Asset allocation	%
Non-UK index-linked	26.4
Long-dated index-linked gilts	13.9
Gold and gold equities	7.5
Cash	5.8
Illiquid strategies and options	5.6
Index-linked gilts	2.0
North America equities	10.6
UK equities	10.4
Japan equities	9.1
Europe equities	5.4
Asia ex-Japan equities	3.3

Currency allocation	%
Sterling	71.9
Gold	7.5
US dollar	7.4
Yen	5.3
Euro	3.6
Other	4.3

10 largest of 60 equity holdings*

Stock	% of fund
Tesco	2.0
Walt Disney Company	2.0
Vivendi	1.7
Lloyds Banking Group	1.6
BP	1.5
Cigna Corporation	1.4
ExxonMobil	1.4
Sumitomo Mitsui Financial Group	1.3
Mitsubishi UFJ Financial	1.3
DowDuPont	1.2

5 largest of 22 bond holdings

Stock	% of fund
UK Treasury index-linked 1.25% 2055	3.8
UK Treasury index-linked 0.375% 2062	3.6
US Treasury index-linked 0.125% TIPS 2022	2.9
US Treasury 0.375% TIPS 2023	2.8
US Treasury 0.125% TIPS 2022	2.6

*Excludes holdings in pooled funds

Source: Ruffer LLP.
Pie chart totals may not equal 100 due to rounding.

Fund information

		%
Ongoing Charges Figure		1.52
Annual management charge		1.50
Maximum initial charge		5.0
Yield		1.45
Minimum investment		£1,000
Ex dividend dates		15 Mar, 15 Sep
Pay dates		15 May, 15 Nov
Dealing		Weekly forward, every Wednesday where this is a business day Plus the last business day of the month
Cut off		10am on Wednesday (where it is a business day) and the last business day of the month
	Accumulation	Income
ISIN	GB0009684100	GB0009684878
SEDOL	0968410	0968487
Investment adviser		Ruffer LLP
ACD		Link Fund Solutions Limited
Depositary		The Bank of New York Mellon (International) Limited
Auditors		Ernst & Young LLP
Structure		Sub-fund of LF Ruffer Investment Funds (OEIC) UK domiciled UCITS Eligible for ISAs

Dealing line 0345 601 9610

Fund Managers

Steve Russell

INVESTMENT DIRECTOR

Graduated from Oxford in PPE and started work as an equity analyst at Confederation Life in 1987, progressing to Head of Equities. In 1999 he moved to HSBC Investment Bank as Head of UK and European Equity Strategy, before joining Ruffer in 2003.

David Ballance

INVESTMENT DIRECTOR

Previously International Equities Head at Rothschild Private Management, he graduated from Oxford and was a Senior Investment Manager at Allied Dunbar, before moving to Threadneedle as Head of European Equities. He joined Ruffer in 2006.

Ruffer LLP

Ruffer LLP manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 31 January 2019, assets managed by the Ruffer Group exceeded £21.1bn.

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